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October 2, 1997

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Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

In re Matter of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996, CC Docket No. 96-128

Dear Mr. Caton:

On October 2, 1997, Jerry Hausman and I met with Brad Wimmer, Jay West, Jim Eisner, Craig Stroup, James Zolnierek, Peyton Wynns and Dan Bring of the FCC on behalf of the RBOC/GTE/SNET Payphone Coalition to discuss issues in the above-captioned proceeding. The enclosed document was used for discussion purposes.

Two copies of this letter are being submitted to you in compliance with 47 C.F.R. § 1.1206(a)(2) to be included in the record of this proceeding. If you have any questions concerning this matter, please contact me at (202) 326-7902.

Sincerely,

Jeffrey A. Lamken

Enclosures
cc: Brad Wimmer
Jay West
Jim Eisner
Craig Stroup
Jim Zolnierek
Peyton Wynns
Dan Bring

0+2

Per-Call
Payphone Compensation

Ex Parte Presentation

On Behalf of the
RBOC/GTE/SNET Payphone Coalition

Oct. 2, 1997

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Market-Based Rates

- Payphone industry competitive (FCC, Court of Appeals)
- Market-based pricing maximizes social welfare
  - Competitive pricing ("fairly compensated" under §276)
    - Adjusts for cost and volume differences from region to region and payphone to payphone
    - Adjusts for changing economic conditions over time (e.g., inflation, technological changes)
  - Competitive deployment levels
    - "Widespread deployment"
    - Efficient deployment
  - Invisible hand versus imperfect regulator

Cost-Plus Methodology Uneconomic

- Uneconomic diminution of supply
  - Market-justified payphones with lower volume and higher costs removed
    - ~ Market would meet demand of marginal customers (highest social welfare)
    - ~ Cost-plus (price equal to average cost) does not meet demand of marginal customers
  - Strong impact on rural areas with smaller calling areas
  - Contrary to "widespread deployment" goal
- Not deregulatory
  - Lengthy proceedings (one size does not fit all regions/payphones)
  - Periodic revisions to rate (changing technology, macro-economic conditions, demand patterns)
  - Regulatory costs (delay, cost accounting)

Avoided-Cost Pricing

Costs of Dial-Around and Subscriber 800 Calls Versus Local Coin Calls		
Cost Type	Mean Per-Call Cost Difference	Modal Per-Call Cost Difference
Local Usage	-$.02	$.00
Coin Collection	-$.02	-$.03
ANI ii*	+$.05 TO $.08	+$.05 TO $.08
Uncollectibles (APCC)	+$.03	+$.03
Interest (APCC)	+$.01	+$.01
Admin. Costs (APCC)	+$.01	+$.01
TOTAL ADJUSTMENT FROM LOCAL COIN RATE	+$.06 TO $.09	+$.07 TO $.10

*If the Commission allows LECs to identify payphones using their choice of Flex ANI or OLNS technology, payphone identification digit costs for the subscriber 800 and access code calls might be as little as $.01 per call.

Costs Not Avoided

- Local usage
  - PSP lines mostly flat rated
    - ~ Regulatory choices
    - ~ More efficient for payphones
    - ~ Choice independent of compensation
  - PSP (not LEC) costs matter
    - ~ PSP pays LEC rate
    - ~ Significant portion of PSPs independent
  - LEC loop costs flat
- Coin mechanism (coin versus coinless payphone)
  - Cost incurred even where mechanism not used (cost not "avoided")
  - Without coin calls most payphones would be unprofitable (cost not "avoidable")
  - Total per-call costs increase without coin calls
  - Cost difference between coin and coinless payphones ($35) has <u>de minimis</u> impact on per-call costs

Conditions of Demand

- Efficient pricing accounts for demand conditions
  - Competitive, multi-product firm sets price according to elasticities to recover joint and common costs from services with less elastic demand
  - Minimizes price impact on demand
  - Observed in market
    - Airline industry
    - 0+ calls priced higher than local calls
  - Efficient deployment
  - Local coin rate and payphone availability impact
- Local coin calls have higher derived demand elasticity
  - Payphone compensation is a lower percentage of the total price of a dial-around or subscriber 800 call
  - Market prices payphone usage on dial-around and 800 calls higher than on local coin calls

Multi-Service Pricing Model

- Competitive mark up formula
- 0+ derived mark up (adjusted for 0+ and subscriber 800 revenues)
- Ad Valorem Tax
- Adjusted 0+ commissions